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IN THE MATTER OF THE
APPLICATION OF ARIZONA
ELECTRIC POWER COOPERATIVE,
INC., FOR A RATE INCREASE.

DOCKET NO. E-01773A-04-0528

IN THE MATTER OF THE
APPLICATION OF SOUTHWEST
TRANSMISSION COOPERATIVE,
INC., FOR A RATE INCREASE.

DOCKET NO. E-04100A-04-0527

**SSVEC'S RESPONSE TO AEPCO'S
REPLY REGARDING FPPCA
EFFICACY AND IMPLEMENTATION
OF ALTERNATIVE ADJUSTOR
RATES**

On March 31, 2008, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") filed a Response ("Initial Response") to Arizona Electric Power Cooperative, Inc.'s ("AEPCO") February 29, 2008, Request for Review of FPPCA¹ Efficacy and Implementation of Alternative Adjustor Rates ("AEPCO's Request").² On April 4, 2008, AEPCO filed a Reply ("AEPCO Reply") to SSVEC's Initial Response. SSVEC hereby files this Response to AEPCO's Reply.

AEPCO'S ARGUMENTS

The AEPCO Reply sets forth three primary arguments why the relief requested in SSVEC's Initial Response should be denied. Those arguments are:

1) SSVEC's request that AEPCO propose FPPCA adjustor rates that allocate fuel and purchased power costs between the members of the Partial Requirements Members ("PRM") and the All Requirements Members ("ARM") consistent with costs attributable

¹ Fuel and Purchased Power Cost Adjustment ("FPPCA").

² AEPCO filed an amendment to the AEPCO Request on March 28, 2008.

to the respective class is not what the Commission ordered in the 2005 AEPCO Rate Case (“2005 Rate Case”) and is, therefore, a collateral attack on the 2005 Rate Case Decision No. 68071 (“Decision”);

2) The SSVEC request should be deferred until AEPCO’s 2009 Rate Case (“2009 Rate Case”) filing; and

3) Although AEPCO is working on developing the capability to track and allocate costs, AEPCO currently does not have such capability.

SSVEC’S REQUEST IS NOT A COLLATERAL ATTACK ON THE COMMISSION DECISION

It should be noted from the outset that although AEPCO opposes SSVEC’s request that fuel and purchased power costs be allocated between the members of the PRM and the ARM classes consistent with costs attributable to the respective class, AEPCO has not denied that this mismatch is in fact occurring. As SSVEC noted in its Initial Response, this mismatch results in a subsidy that the PRM class is providing to the ARM class. By the time AEPCO’s 2009 Rate Case concludes, PRM ratepayers will have likely paid millions of extra dollars for fuel and purchased power costs for which they were not responsible.

In authorizing the FPPCA, the Commission stated in the Decision:

[w]e recognize that the FPPCA is intended to allow timely recovery of fuel and purchased power costs, or to allow the refund of any decreases, *without the time and expense of a full rate proceeding.* (Emphasis added.)³

The Decision also adopted Staff Recommendations that included the following:⁴

- a. The FPPCA will expire in five years unless extended by the Commission;
- b. The Commission or Staff will have the right to review the prudence of fuel and power purchases at any time;

³ Decision at Finding of Fact No. 36.

⁴ Decision at Finding of Fact No. 35.

- c. The Commission or Staff will have the right to review any calculations associated with the FPPCA at any time;
- d. Any costs flowed through the FPPCA are subject to refund if the Commission determined that the costs are imprudent;
- e. AEPCO will file monthly reports with the Staff's Compliance Section detailing all calculations relating to the FPPCA and containing the nine minimum requirements specified in Ms. Keene's Direct Testimony (Ex. S-7); and
- f. AEPCO will file additional monthly reports regarding its generating units, power purchases, and fuel purchases. The report will comply with the minimum requirements specified in Ms. Keene's Direct Testimony.

Finally, the Decision held that a separate base cost of power be established for the PRM and ARM classes and set the base at \$0.01603 per kWh and \$0.01687 per kWh.⁵ The very reason for having a power base for each class was for the purpose of excluding power costs completely attributable to the ARM class.⁶

It is clear from the litany of above-referenced Findings contained in the Decision, that the Commission expressly intended that the Commission was going to closely monitor the FPPCA and could order modifications without the need for a full rate case proceeding. Additionally, by establishing separate FPPCA adjustors for the PRM and ARM classes to reflect the different fuel and purchased power costs attributable to such

⁵ Decision at Finding of Fact No. 37.

⁶ Mohave Electric Cooperative ("MEC"), the only PRM at the time, did not participate in the Panda Gila River ("PGR") purchase power agreement that expired in 2007. Accordingly, those costs were excluded from the base cost of power calculation for MEC, which is why this rate was lower for the PRM class. What is important to note, however, is at the time SSVEC negotiated its partial requirements contract with AEPCO (which was approved by the Commission at the end of last year), AEPCO insisted on language in the contract that provided that if SSVEC became a PRM prior to the expiration of the PGR agreement, SSVEC would still be required to continue to pay its allocation of PGR costs as if it was still an ARM. This was to ensure that costs incurred by AEPCO for the ARMs would remain the responsibility of that ARM, even if that member subsequently became a PRM.

1 classes and the right that the Commission expressly reserved "to review any calculations
2 associated with the FPPCA at any time," the Commission has the ability to require
3 AEPCO to properly allocate fuel and purchased power costs between the PRM and the
4 ARM classes.

5 SSVEC submits that the proper allocation of fuel and purchased power expenses
6 between the two rate classes is the very reason for the establishment of the two classes and
7 is consistent with the Commission's ability to order revisions to the FPPCA between the
8 2005 Rate Case and the 2009 Rate Case. Accordingly, SSVEC's request for the
9 Commission to require AEPCO to submit a fully detailed methodology that fairly and
10 appropriately allocates fuel and purchased power costs between rate classes is consistent
11 with the Decision and is not a collateral attack on the Decision.

12 **SSVEC'S REQUEST SHOULD NOT BE DEFERRED UNTIL THE 2009**
13 **RATE CASE**

14 As stated above, the Commission clearly reserved the right to make changes to the
15 FPPCA between the time of the 2005 Rate Case Decision and the 2009 Rate Case filing
16 that was ordered in the Decision. The issue raised in SSVEC's Initial Request has been
17 the subject of discussions between SSVEC and AEPCO for many years, to no avail. It
18 will be approximately two to three years from the time SSVEC became a PRM until the
19 time the AEPCO 2009 Rate Case is decided. During that time, SSVEC ratepayers would
20 likely be charged millions of dollars for fuel and purchased power costs for which they are
21 not responsible. Given that the Commission has expressly reserved the "right" to review
22 this issue in between rate cases, SSVEC believes this matter should not be deferred until
23 the 2009 Rate Case.

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1 **AEPCO HAS THE ABILITY TO EXPEDITE IMPLEMENTATION OF A**
2 **FAIR ALLOCATION METHOD**

3 The AEPCO Reply states that although AEPCO is working on developing the
4 capability to track and allocate costs, AEPCO currently does not have such capability. It
5 also states that the soonest the system will be online is the first quarter of 2009. SSVEC
6 believes that AEPCO does currently have some ability to track and allocate costs between
7 the member classes. Moreover, even though SSVEC suggested in its Initial Response that
8 it preferred that costs be allocated to the individual member, if that ultimately proves to be
9 impossible or impractical, SSVEC would, of course, be willing to consider alternatives.⁷

10 The AEPCO Reply states that SSVEC is suggesting that AEPCO track, record, and
11 allocate to a particular member the hourly cost of energy. Nowhere in the SSVEC's
12 Initial Response did it suggest an hourly cost of energy, although that would be the most
13 accurate method. SSVEC believes, however, that AEPCO does currently have the ability
14 to track these costs at least on a monthly basis and should have in its possession much of
15 the allocation data if needs to calculate these costs on an hourly basis.⁸

16 SSVEC requested in its Initial Response that AEPCO file a revised methodology
17 by the time of the next semi-annual filing. If, however, AEPCO would agree to accelerate
18 the development of its new system to the extent possible, SSVEC would not object to a
19 further implementation delay so long as there is a true-up to April 1, 2008.

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23 ⁷ One example might be if it was ultimately determined that there should be one FPPCA rate for the ARM
24 class and separate FPPCA rates for SSVEC and MEC. Another example would be if it is determined that
25 it is practical and fair, SSVEC would consider maintaining the two rate classes, as long as costs are
26 properly allocated between them.

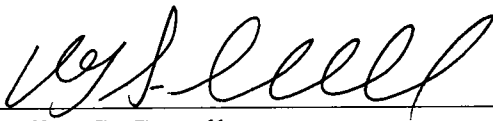
25 ⁸ For example, AEPCO has the detailed information available for its monthly billing of its energy costs to
26 the PRMs. Additionally, it should already have much of the allocation data it needs on an hourly basis,
including generation schedules and the schedules of power delivered to the PRMs.

1 **CONCLUSION**

2 On the basis of the foregoing, SSVEC believes that it is not necessary or
3 appropriate for it to have to wait until the conclusion of SSVEC's next rate case before
4 AEPCO allocates costs between its members consistent with actual fuel and purchased
5 power expenses attributable to the respective members and classes. SSVEC requests that
6 the Commission issue an order in accordance with SSVEC's Initial Response.

7 RESPECTFULLY SUBMITTED this 8th day of April, 2008.

8 SNELL & WILMER L.L.P.

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